Dear Tim,

UNNUMBERED EUROPEAN COURT OF AUDITORS 6: HAVE THE MEMBER STATES AND THE COMMISSION ACHIEVED VALUE FOR MONEY FOR THE MEASURES FOR DIVERSIFYING THE RURAL ECONOMY

Thank you for your letter of 28 November regarding the Explanatory Memorandum on the European Court of Auditors (ECA) report 6: Diversifying the Rural Economy 2013.

Member States are being actively encouraged by the European Commission to share best practice with others. We were pleased that good practice in England was highlighted in the Report; UK officials also meet regularly to share best practice on monitoring and evaluation more generally. English officials gave a well-received presentation to other Member States at the Rural Development Committee on ‘reducing deadweight and displacement’ on 22 November 2013.

European Court of Auditors recommendations

The UK authorities accept all the recommendations set out in the ECA audit and are reflecting on them, and on lessons learned from the current Rural Development Programme in England, as we develop our proposals for the 2014-20 Programme. Please see our specific responses to all six recommendations set out in Annex A.

The new Rural Development regulations require each Member State to carefully consider the need for: targeted intervention; the implementation of robust selection criteria; risk mitigation; the application of a quantifiable monitoring and evaluation framework; and an overall goal of reducing unnecessary administrative burdens where possible.

The regulation also requires Managing Authorities in all Member States to carry out an external ex-ante evaluation for the new Programme. This will provide us with an independent and impartial assessment of the development, design and rationale for intervention of the next Rural Development Programme.

In terms of reflecting on lessons learned from the current Programme, respective UK authorities are reviewing the findings of evaluations conducted over the course of the Programme, including mid-term evaluations undertaken in 2010 and specific evaluations
on non-agricultural activities delivered under both Axis 3 and 4. Feedback, as a result of consultations on how we implement the new Rural Development Programme, is also being considered as part of the development and design of the new Programme.

For example, we have noted concerns raised by our Programme Monitoring Committee over the recent implementation of the Farm and Forestry Improvement Scheme (FFIS) and the Rural Economy Grant (REG) in England. These small and large grant schemes were put in place following the closure of the Regional Development Agencies (RDAs). They were, in part, a result of recommendations from our mid-term evaluation which concluded that the schemes offered by the RDAs provided no consistency across England and was seen as unwelcome by key interested parties. We introduced a nationally consistent offer for businesses in rural areas, building the new schemes on the good examples found in regions, which the ECA audit has highlighted. However, the demand was so high that it meant we were unable to respond as quickly as we would have liked to the Expressions of Interest and full applications.

We will address this in the new programme by introducing rolling application windows to help speed up responses and provide rural businesses a clearer indication of when they will expect a decision or be given further advice. We will want to consider how we continue to balance a national approach with locally identified needs as we develop the next programme, which includes a commitment to work closely with Local Enterprise Partnerships (LEPs) and through the LEADER approach.

We will also take the opportunity to simplify processes where EU legislation allows and will aim to make processes as simple, effective and affordable as possible while minimising disallowance. The new Common Agricultural Policy Delivery IT system will implement a ‘digital by default’ approach, with the design principle being that the customer or applicant is in control of their information. This should mean streamlining the application process and making payment of claims simple.

As noted above, the Devolved Administrations are giving similar consideration to such factors as they develop their respective 2014-20 Programmes.

Views on the reliability of England’s monitoring arrangements

The report was critical of the reliability of England’s monitoring information. We do accept some criticism of this. While we do have in place a good system for recording outputs at the point of approval of the project currently, the main criticism related to how we followed through this process to capture outputs post project completion. Project officers do check outputs at final payment, but ex-post inspection checks revealed some discrepancies between outputs delivered, such as the number of jobs created. In response, we are looking to build provisions into our new Common Agricultural Policy Delivery IT system to enable better capture of outputs and more responsive monitoring systems that enable us to evaluate the success of the new Programme.

I am copying this letter to William Cash, Chairman of the European Scrutiny Committee on the European Union; to the Clerks of the European Scrutiny Committee and the Select Committee; Les Saunders, Cabinet Office European Secretariat; and Liz Halksworth, EU Scrutiny Co-ordinator, Defra

George Eustice

GEORGE EUSTICE MP
ANNEX A:

Recommendation 1:  
In their RDPs, Member States should clearly identify why and how public intervention for investments in non-agricultural activities can help to redress for example market failures related to barriers to employment and growth.

The RDPs should set specific and measurable objectives in relation to these needs.

The Commission should approve only those RDPs that present substantiated and comprehensive strategies with a clear rationale that show how policy intervention will contribute to strategic aims of creating growth conditions and employment opportunities.

UK response:  
All UK authorities accept this recommendation and believe it is important to clearly identify how and why public intervention for investments in non-agricultural activities can help redress market failures or specific barriers to employment and growth.

UK authorities are in the process of developing Rural Development Programmes for submission to the European Commission in the New Year. As part of the development of each programme we need to provide a clear evidence based analysis of the current situation, based on a “SWOT” (the Strengths, Weaknesses, Threats and Opportunities) of rural areas in a particular country.

Specific and measurable objectives based on this analysis are also being developed - we will be setting clear targets based on appropriate benchmarks for delivery of the outputs and outcomes set out in the common monitoring and evaluation framework developed by the Commission in discussions with Member States.

Our analysis of the “SWOT” and needs assessment, and the outputs and outcomes we are developing will be independently assessed by our ex-ante evaluators prior to submission to the European Commission.
**Recommendation 2:**
Member States should establish and consistently apply criteria to ensure the selection of the most effective, sustainable projects with respect to the Member States’ specific objectives in order to develop non-agricultural activities and promote employment. The potential of the projects to produce positive effects on employment and incomes should be taken into account in the design of future policy and be more prominently considered by the Member States in their project selection systems. These selection systems should systematically set a minimum threshold taking into account the ‘quality of project’. Targeted controls should be carried out to ensure the respect of such criteria for example during the on the spot and ex post checks. The Commission should ensure that these criteria are correctly and continuously applied, not only in cases of budgetary shortage.

**UK response:**
All UK authorities accept this recommendation and believe it is important to establish and consistently apply criteria to ensure the selection of the most effective projects to help achieve specific non-agricultural and employment objectives.

As we develop schemes, we will:

- build into the design of the schemes the potential for projects to produce positive effects on employment and incomes, building on the good work already highlighted by the ECA in the report;
- set out clear eligibility and selection criteria for schemes including minimum thresholds for projects;
- put in place targeted controls to ensure such criteria have been met as part of on the spot and ex-post inspection checks.

**Recommendation 3:**
The Commission and Member States should promote the adoption of best practices in respect of mitigating the risks of deadweight and displacement. This requires Member States to select projects for which there is a demonstrable need for public support (and which deliver added value). Member States should consider deadweight and displacement risks both when drawing up their RDP and when selecting projects.

The Commission should encourage Member States to adopt the practice whereby expenditure for investments would be eligible only as of the date of grant approval.

UK authorities will continue to use the best practice identified in respect of mitigating deadweight and displacement, and retain the practice whereby expenditure for investments are eligible only as of the date of grant approval, as per the England best practice examples.

**Recommendation 4:**
Member States should mitigate the risk to economy by a systematic assessment of costs that should not be limited only to questions of eligibility and the results of this assessment should be adequately documented. Where feasible, benchmarks should be developed for common cost items in order to facilitate the assessment of costs in project proposals.

The Commission should ensure that Member States have effective systems to carry out checks on reasonableness of the costs.
UK authorities will look systematically at an assessment of costs and develop benchmarks for common cost items in order to facilitate the assessment of costs in project proposals and put in place systems to carry out checks on reasonableness of costs.

**Recommendation 5:**
The Commission and the Member States should ensure that for the forthcoming programming period, relevant and reliable information is obtained to facilitate management and monitoring of the measure and to demonstrate the extent to which the aid given is contributing to the achievement of EU priorities. Furthermore, Member States should ensure that clear specific objectives are set for the projects to which funds are committed. Objectives should be quantified where possible to facilitate the execution and monitoring of the projects and to provide useful feedback for the managing authority.

The targets for job creation should be realistic and the numbers of jobs created accurately monitored, the measures should be better managed throughout the programming period and particularly if it becomes apparent that targets set will not be achieved.

Member States should be encouraged to develop tailor-made indicators that reflect their own specific context and need, for their own management and evaluation purposes.

UK authorities recognise the need for obtaining more reliable information to facilitate management and monitoring of measures under the new Rural Development Programme to demonstrate achievement of EU and UK priorities. We will also be developing tailor-made indicators to reflect specific contexts and need for our own purposes.

UK authorities agree with the proposals for more regular review and evaluation of Rural Development Programmes through enhanced Annual Implementation Reports in 2017 and 2019, alongside an ex-post evaluation of the Rural Development Programme in 2023, and are developing Monitoring and Evaluation Plans for the new programme as part of the document we submit to the European Commission in the New Year. This will also be subject to an independent assessment by our respective ex-ante evaluators.

Monitoring and Evaluation Plans will include quantified objectives for the programme, and each project will be required to meet clear objectives for any funding provided. As part of this we will look to build in feedback loops to ensure any issues can be raised and addressed with Managing Authorities via Programme Monitoring Committees (PMC) for each Rural Development Programme, building on the current PMC framework and structures.

**Recommendation 6:**
The Commission and Member States should increase their efforts in reducing the administrative burden and ensuring that payments are made in a reasonable timeframe. Consideration could be given to a procedure for ‘fast tracking’ small scale investments (shorter periods for processing applications) and payments.

UK authorities will continue to look at how we can reduce administrative burden for beneficiaries, building on the best practice highlighted in England in the ECA report, in particular for small scale investments, where shorter periods for processing applications have been well received under the current programme.